



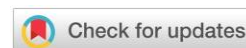
Islamic Banking Governance: A Conceptual Analysis of Good Corporate Governance and Sharia Governance

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ABSTRACT

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This article analyzes the concepts of Good Corporate Governance (GCG) and Sharia Governance (SG) in Islamic banking through a literature study approach. GCG focuses on corporate governance principles, including transparency, accountability, responsibility, independence, and fairness. Meanwhile, Sharia Governance emphasizes supervisory mechanisms involving the Sharia Supervisory Board (SSB) in ensuring that bank operations comply with Islamic law. The integration of GCG and SG in Islamic banking is a crucial factor in building public trust and enhancing the global competitiveness of the Islamic banking industry. The study finds that although many Islamic banks have implemented GCG and SG, there are still challenges in their application. These include differences in regulations across countries, the effectiveness of supervision by the Sharia Supervisory Board, and the limited availability of competent human resources in the fields of Sharia and governance.

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INTRODUCTION

Good governance is a crucial element in the banking system, including Islamic banking, to ensure stability, transparency, and accountability in its operations. In Islamic banking, governance not only functions to improve efficiency and competitiveness but also aims to ensure compliance with Sharia principles that form the foundation of its operations (Hadi, 2011). With effective governance, Islamic banking can build public trust and contribute more significantly to the economy, especially in countries with a Muslim-majority population. However, in practice, the implementation of ideal governance still faces various challenges, such as differences in regulations, the lack of uniform standards, and limited human resources with expertise in both Sharia and governance. Although both conventional and Islamic banking share fundamental principles of promoting transparency and accountability, there are significant differences between their governance systems. Conventional banking is primarily based on profit-oriented principles and follows general banking regulations, whereas Islamic banking has the additional obligation to comply with Islamic law in every transaction and policy (Citra and Verawaty, 2016). Furthermore, Islamic banking includes a Sharia Supervisory Board (SSB), which ensures that bank operations adhere to Sharia principles—an element not found in conventional banking governance. This distinction makes Islamic banking more complex, as it must not only implement Good Corporate Governance (GCG) principles but also ensure that Sharia Governance (SG) is effectively applied in all aspects of its business. The urgency of implementing GCG and SG in Islamic banking has increased alongside growing demands for transparency and accountability from various stakeholders (Anwar, 2018). GCG aims to optimize corporate value by applying principles of fairness, responsibility, independence, and accountability, while SG serves as an additional supervisory system to ensure that all banking products and policies comply with Islamic law. The synergy between these two frameworks is a key factor in maintaining the credibility and sustainability of Islamic banking amid global competition. Therefore, strong governance implementation not only enhances investor and customer trust but also strengthens the international competitiveness of the Islamic banking industry. Based on these issues, this study aims to analyze the concepts of GCG and SG in Islamic banking and to identify the challenges and opportunities in their implementation. This research employs a literature study approach to gain a deeper understanding of ideal governance mechanisms for Islamic banking. The findings are expected to provide insights for regulators, academics, and practitioners in developing more effective policies to strengthen governance and sustainably enhance the stability of the Islamic banking sector.

The Concept of Good Corporate Governance in Islamic Banking

Good Corporate Governance (GCG) is a corporate governance concept that aims to enhance transparency, accountability, and integrity in the operations of a business entity, including Islamic banking (Anton, 2010). GCG is based on key principles such as transparency, accountability, responsibility, independence, and fairness, which serve to protect stakeholders' interests and increase public trust. In the context of Islamic banking, the implementation of GCG is not only intended to achieve business efficiency but also to ensure that every decision and policy complies with Sharia principles, thereby strengthening the integrity and global competitiveness of the Islamic banking industry.

To optimize the implementation of GCG, various international standards have been developed by global institutions such as the Organisation for Economic Co-operation and Development (OECD) and the Islamic Financial Services Board (IFSB). The OECD establishes five main pillars of GCG: the protection of shareholders' rights, equitable treatment of shareholders, the role of stakeholders in corporate governance, transparency and disclosure, and the responsibilities of the board of directors. Meanwhile, the IFSB, as an authority in the Islamic financial sector, emphasizes that GCG in Islamic banking must be aligned with Islamic principles by incorporating Sharia Governance as a key element that distinguishes it from conventional banking (Hamdani, 2016). The integration of GCG principles adopted from international standards with the implementation of Sharia Governance presents both challenges and opportunities for Islamic banking in building a strong and sustainable governance system. By consistently applying GCG principles, Islamic banks can enhance transparency and accountability while ensuring that all business activities remain in line with Sharia principles. Therefore, stricter regulations, improved human resource capacity, and effective supervision by the Sharia Supervisory Board are strategic steps in strengthening Islamic banking governance, enabling it to compete with the conventional banking industry on a global scale.

The Concept of Sharia Governance in Islamic Banking

Sharia Governance is a governance system in Islamic banking that aims to ensure that all operations, products, and services comply with Sharia principles. Unlike Good Corporate Governance, which focuses more on efficiency and transparency in business, Sharia Governance has an additional dimension that emphasizes compliance with Islamic law. The main principles of Sharia Governance include Sharia compliance, transparency, accountability, independence, and fairness, which aim to maintain the trust of customers and other stakeholders (Bella, 2014). With a strong Sharia governance system, Islamic banking can operate more credibly and competitively in the global financial industry.

One of the key elements in the implementation of Sharia Governance is the presence of the Sharia Supervisory Board (SSB), which acts as an independent body to ensure that policies, products, and operations of Islamic banks comply with Islamic principles. The SSB is responsible for supervision, evaluation, and issuing fatwas and recommendations related to Sharia compliance in banking operations. In addition, the SSB ensures that all employees and management understand and implement Sharia principles in their business activities. The existence of the SSB is a key distinguishing factor between Islamic and conventional banking, as supervision in Islamic banking is based not only on general banking regulations but also on Islamic law (Indra, 2016).

To enhance its effectiveness, the SSB must maintain a high level of independence and collaborate with regulators such as the National Sharia Council (DSN) and the Financial Services Authority (OJK) in setting Sharia compliance standards. However, challenges in implementing Sharia Governance include the limited availability of competent human resources in both finance and Sharia, as well as the need for harmonization of Sharia regulations across countries. Therefore, strengthening the role of the SSB, improving human resource competencies, and harmonizing regulations are essential steps in reinforcing the Sharia Governance system, enabling Islamic banking to grow and compete globally.

Integration of GCG and Sharia Governance in Islamic Banking

Good Corporate Governance and Sharia Governance are closely related in Islamic banking, as both aim to ensure that bank operations are conducted transparently, accountably, and in accordance with Sharia principles (Wulandari, 2011). GCG focuses on general governance principles commonly applied in the financial industry, such as transparency, accountability, and the protection of stakeholders' rights. Meanwhile, Sharia Governance adds the dimension of compliance with Islamic law, including supervision by the Sharia Supervisory Board and the application of Sharia principles in every transaction. In other words, Sharia Governance strengthens the implementation of GCG in Islamic banking by ensuring that governance practices not only meet conventional banking standards but also align with Islamic values.

To ensure effective governance in Islamic banking, many countries have developed standards and regulations governing the implementation of GCG and Sharia Governance. International institutions such as the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) have formulated guidelines covering governance standards, Sharia supervision, and accounting in Islamic banking. In Indonesia, Islamic banking governance is regulated by the Financial Services Authority (OJK) and the National Sharia Council–Indonesian Ulama

Council (DSN-MUI), which are responsible for setting policies and issuing fatwas on Islamic banking products and services. In countries such as Malaysia and the United Arab Emirates, Islamic banking regulations are more integrated into the national financial system, providing stronger legal certainty for the industry (Tandelilin, 2010).

Despite these developments, challenges remain in harmonizing GCG and Sharia Governance standards globally. Differences in the interpretation of Sharia law, variations in regulatory policies across countries, and the readiness of human resources with expertise in both finance and Islamic law affect governance effectiveness. Therefore, international cooperation among regulators, academics, and banking practitioners is needed to create more standardized and globally applicable governance frameworks. With more integrated standards, Islamic banking can grow more sustainably and competitively at the international level while maintaining compliance with Sharia principles.

RESEARCH METHOD

This study uses a literature review (library research) method that focuses on analyzing various academic sources and regulations related to Islamic banking governance (Sujarweni, 2015). The data sources include books, scientific journals, and official reports from national Islamic banking authorities discussing the concepts of Good Corporate Governance and Sharia Governance (Sugiarto, 2017). The collected data are analyzed qualitatively using a descriptive approach to understand the theories and practices of Islamic banking governance and to explore the challenges and opportunities in its implementation (Sugiyono, 2006). Through this method, the study provides a more comprehensive understanding of the effectiveness of governance in enhancing the stability and competitiveness of Islamic banking.

RESULT AND DISCUSSION

FINDINGS AND DISCUSSION

The Implementation of Good Corporate Governance in Sharia Banking

The implementation of *Good Corporate Governance* in Islamic banking is one of the fundamental aspects in maintaining transparency, accountability, and stakeholder trust. In contrast to conventional banking, Islamic banking not only follows general governance standards, but must also ensure its conformity with sharia principles (Mahardhika and Rizal, 2017). Therefore, the implementation of GCG in Islamic banks aims to create a balance between business interests and adherence to Islamic values, so as to increase financial stability and competitiveness of the Islamic banking industry globally.

To realize good corporate governance, Islamic banking must implement mechanisms that cover various important aspects, such as a transparent leadership structure, a strong supervisory system, and compliance with sharia regulations and standards. One of the key elements in this mechanism is the Sharia Supervisory Board (DPS), which is tasked with ensuring that Islamic banks' policies, products, and services are in accordance with Islamic principles (Simamora, 2000). In addition, Islamic banks must also have an effective internal control system, where internal and external audits are conducted periodically to ensure compliance with Islamic accounting standards and prevent practices that can harm customers and investors.

However, in practice, the implementation of GCG in Islamic banking still faces various challenges, both at the national and global levels. One of the main challenges is the difference in regulations in different countries, which leads to a lack of uniform standards in the governance of Islamic banks (Hanafi, 2004). In addition, the limitation of human resources who understand both financial aspects and sharia principles is also an obstacle in increasing the effectiveness of GCG supervision and implementation. Another challenge is the lack of awareness and understanding of customers and investors on the importance of good governance in Islamic banking, which often results in a low level of transparency and accountability in some Islamic financial institutions.

Despite facing various challenges, there are great opportunities in the implementation of GCG in Islamic banking, especially with the increasing demand for financial services based on ethics and Islamic principles (Alimatul, 2013). Evolving regulations, such as standards published by the *Islamic Financial Services Board* (IFSB) and the *Accounting and Auditing Organization for Islamic Financial Institutions* (AAOIFI), provide clearer guidance for Islamic banks in adopting better governance practices. In addition, technological advances in digital banking and Islamic fintech open up opportunities for Islamic banks to increase the transparency, efficiency, and accessibility of Islamic banking services in various countries.

With increasing global awareness of the importance of good governance in Islamic banking, in the future it is hoped that Islamic banks can continue to strengthen the implementation of GCG by improving regulations, improving human resource competence, and adopting technology in the Islamic supervision and audit system. If these

challenges can be overcome, Islamic banks will not only grow sustainably, but also be able to become a more transparent, ethical, and inclusive banking model at the global level. Therefore, the synergy between conventional governance principles and sharia principles must continue to be improved in order to achieve the goals of a just Islamic economy.

The Role of Sharia Governance in Maintaining Sharia Compliance

Sharia Governance has a crucial role in maintaining sharia compliance in Islamic banking, ensuring that every aspect of operations and financial products is in accordance with Islamic principles (Yuliani, 2016). In contrast to governance in conventional banking, SG in Islamic banking not only focuses on aspects of transparency and accountability, but also emphasizes compliance with Islamic law that prohibits the elements of *riba*, *gharar*, and *maysir*. With a strong Islamic governance system, Islamic banks can increase public trust and regulators, as well as encourage the growth of a more stable and sustainable Islamic finance industry.

One of the key elements in *Sharia Governance* is the role of the Sharia Supervisory Board (DPS) in ensuring that all Islamic bank products and operations are in accordance with Sharia principles. DPS is tasked with reviewing and issuing fatwas on financial products to be issued by banks, supervising the application of sharia principles in daily operations, and conducting periodic sharia audits (Ghozali, 2011). In addition, DPS also plays a role in providing education to bank management and employees regarding the implementation of sharia, so that all business decisions remain in line with Islamic provisions. With strict supervision from DPS, Islamic banks can reduce the risk of non-conformity of products and services with applicable sharia standards.

The implementation of *Sharia Governance* in Indonesia shows how the regulation and supervision of sharia compliance is carried out systematically (Hafiez, Ihyaul and Daniel, 2012). Indonesia has the National Sharia Council-Indonesian Ulema Council (DSN-MUI) as the authority responsible for establishing sharia fatwas and guidelines for Islamic banking. In addition, further supervision is carried out by the Financial Services Authority (OJK) which ensures that each Islamic bank complies with the governance standards that have been set. With this structure, DPS in each Islamic bank must refer to

the DSN-MUI fatwa in formulating internal policies and ensuring that all banking activities run in accordance with applicable sharia regulations.

Several case studies in Indonesia show the effectiveness of *Sharia Governance* in maintaining Sharia compliance in Islamic banking (Sujarweni, 2015). For example, Bank Syariah Indonesia (BSI) as the largest Islamic bank in Indonesia, has implemented a strict supervisory system by involving DPS in every strategic decision. In addition, other Islamic banks such as Bank Muamalat and Bank Mega Syariah also implement a periodic sharia audit mechanism to ensure compliance with Islamic principles. However, the challenges that are still faced are the need to improve the competence of DPS and strengthen regulations to be more adaptive to the increasingly complex development of Islamic financial products.

With the growing Islamic finance industry in Indonesia, the implementation of *Sharia Governance* needs to continue to be strengthened through increased compliance standards, stricter supervision, and collaboration between regulators, academics, and industry players. Increasing the capacity of human resources in the field of Islamic finance is also an important factor in ensuring the effectiveness of DPS in carrying out its duties. If these challenges can be overcome, then Islamic banking in Indonesia can not only grow sustainably, but also become a model for other countries in implementing effective and reliable Islamic governance.

Synergy of GCG and Sharia Governance to Improve Sharia Banking Performance

The synergy between *Good Corporate Governance* and *Sharia Governance* is the main factor in improving the performance of Islamic banking. GCG plays a role in creating a transparent, accountable, and efficient bank management system, while SG ensures that all bank activities and products remain in accordance with sharia principles. The combination of these two aspects not only increases public and investor confidence, but also helps Islamic banks in managing risks more effectively (Hamidah, 2017). With good governance, Islamic banks can compete more competitively with conventional banks and expand the share of the Islamic finance market in Indonesia.

Table 1.
Synergy of Good Corporate Governance (GCG) and Sharia Governance (SG) to Improve Sharia Banking Performance:

Aspects	<i>Good Corporate Governance (GCG)</i>	<i>Shariah Governance (SG)</i>	Impact on Sharia Banking Performance
Basic Principles	Transparency, accountability, responsibility, independence, fairness	Sharia compliance, integrity, sharia transparency	Increase public and investor confidence
Supervision Structure	Commissioner, Audit Committee, Risk Committee, OJK	Sharia Supervisory Board (DPS), DSN-MUI Fatwa	Ensuring a balance between business and sharia aspects
Governing Regulations	POJK No. 17/POJK.03/2014 on GCG for Sharia Banking	Fatwa DSN-MUI, Sharia Governance Framework (SGF)	Ensure operations meet national and global standards
Role in Risk Management	Identifying, measuring, monitoring, and controlling risks	Ensuring that the risks arising are not contrary to sharia	Reduce reputational and legal risks
Contribution to Financial Stability	Increase efficiency, competitiveness, and product innovation	Ensuring products and operations are sharia compliant	Long-term financial stability

Based on the table above, the implementation of good governance has a significant impact on the stability and growth of Islamic banking. With strict regulations and strong supervisory mechanisms, Islamic banks can maintain financial stability and reduce potential risks such as non-performing loans or non-compliance with sharia principles. In addition, a good governance system encourages the growth of the Islamic banking industry by increasing the trust of depositors and investors, thereby attracting more funds into the Islamic financial system. Another positive impact is the increase in the competitiveness of Islamic banking in facing global challenges, especially in the face of economic integration and the development of banking digitalization.

Indonesia has developed several best practices in Islamic banking governance, which can be used as a model in improving the quality of governance in this sector (Sugiyono, 2006). One of the important steps is the implementation of the *Sharia Governance Framework (SGF)* which regulates the roles and responsibilities of the Sharia Supervisory Board (DPS) in ensuring sharia compliance in every bank. In addition, Bank Indonesia and the Financial Services Authority (OJK) have issued various

regulations related to GCG and SG, including transparency obligations in financial reporting and strengthening internal and external supervisory functions. These measures have helped Islamic banking in Indonesia in building a stronger and more reliable governance system.

Although there have been various regulations and best practices in Islamic banking governance, there are still some challenges that need to be overcome. One of them is the lack of harmonization between banking regulations and sharia fatwas, which sometimes causes uncertainty in the application of sharia products and services (Hastuti, 2005). In addition, there is still a gap in the quality of human resources, especially in understanding the concept of good governance and the application of international standards in Islamic banking. Therefore, it is necessary to make efforts to increase human resource capacity and closer synergy between regulators, academics, and practitioners of the Islamic banking industry.

By continuing to strengthen the synergy between GCG and SG, Islamic banking in Indonesia has a great opportunity to grow more rapidly and sustainably. Improving the quality of governance will not only strengthen the competitiveness of this industry at the national level, but also open up opportunities for expansion into the global market. Therefore, collaboration between regulators, the banking industry, and educational institutions is indispensable to ensure that the governance system implemented is truly effective and able to respond to future challenges. With the right strategy, Indonesia can become a strong Islamic financial center with a credible and internationally recognized governance system.

CONCLUSION

Key findings on *Good Corporate Governance* and *Sharia Governance* in Islamic banking show that synergy between the two is essential to increase transparency, accountability, and compliance with Islamic principles. The implementation of good governance has contributed to increasing the stability and growth of Islamic banking, strengthening customer trust, and increasing the competitiveness of this industry at the global level. However, there are still challenges such as lack of harmonization of regulations, differences in interpretation of sharia fatwas, and limited human resources who deeply understand aspects of sharia governance and compliance.

Therefore, to strengthen Islamic banking governance in the future, it is necessary to increase the capacity of human resources through special training and certification, harmonization of regulations between financial authorities and fatwa institutions, and the

use of digital technology in increasing operational efficiency and transparency. In addition, collaboration between regulators, academics, and industry practitioners needs to be strengthened to create a governance system that is more adaptive, innovative, and in line with global economic developments.

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